

There will be 12 sustainability reporting standards

The rules of non-financial reporting are changing. Companies will soon have to report on their activities relating to ESG matters. The changes will soon impact all companies, either directly or indirectly. The EU is finalizing work on the so-called CSRD Directive, i.e. a set of 12 European Sustainability Reporting Standards.

I. EU finalizing work on a set of sustainability reporting standards

The European Commission has held open consultations on the first set of draft European Sustainability Reporting Standards (ESRS). Directive (EU) 2022/2464 as regards corporate sustainability reporting (Corporate Sustainability Reporting Directive, CSRD) considerably widens the subjective and objective scope of sustainability reporting. A broader group of companies will be required to make more extensive and standardized disclosures regarding sustainable growth.

II. EU working on sector-specific standards in addition to the basic set

ESRS will contain a detailed scope of required disclosures. The European Commission is authorized to adopt them under the CSRD Directive. Draft ESRS are being developed by the European Financial Reporting Advisory Group (EFRAG). The first set will include 12 universal ESRS. In accordance with the CSRD, the European Commission was mandated to adopt the first set of ESRS by 30 June 2023. The process is, however, delayed. For this reason they must be adopted as soon as possible, so that the first group of entities (the largest public interest entities that already report) can report in accordance with the new rules as early as for 2024. ESRS are to be issued for specific groups of entities: simplified standards for listed SME, standards for entities from third countries, sector-specific standards for companies (e.g. mining). The European Commission has also announced the publication of guidelines for small and medium entities from outside the stock market (as non-mandatory, not covered by the directive). The preparation of a set of 12 ESRS is to be followed by the publication of sector-specific standards, which will take place in three stages in November 2023, 2024 and 2025 successively. They will first cover the following sectors: agriculture, chemicals, fossil fuels, forestry, mining, road transport, textiles and food.





III. ESG reports subject to audit and part of annual reporting

In the fall of 2022 the European Parliament and the Council adopted the CSRD Directive (Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting). Under the directive, all large companies (irrespective of whether listed or private) will have to prepare sustainability reports. These reports will have to be audited and will constitute an integral part of each company's annual report. The obligations will also apply to small and medium companies listed on a regulated market. The reports will be prepared in accordance with the European Sustainability Reporting Standards (ESRS), of which there are to be 12 and which contain 84 quantitative and qualitative mandatory disclosures (prior to consultations there were 136).

IV. Set to include general, environmental, social and corporate standards

The set of 12 ESRS consists of two general standards, i.e. ESRS 1 General Requirements and ESRS 2 General Disclosures, five environmental standards: ESRS E1 Climate change, ESRS E2 Pollution, ESRS E3 Water and marine resources, ESRS E4 Biodiversity and ecosystems and ESRS E5 Resource use and circular economy, four social standards: ESRS S1 Own workforce, ESRS S2 Workers in the value chain, ESRS S3 Affected communities, ESRS S4 Consumers and end-users, as well as one corporate governance standard, i.e. ESRS G1 Business Conduct.

V. ESRS to require 84 disclosures

ESRS 1 contains no ratios, describes the general rules of using the standards and creating sustainability reports in accordance with the ESRS. Whereas ESRS 2 contains a set of mandatory ratios (12 required disclosures) concerning general information about the reporting entity, strategy, management, as well as a materiality analysis performed for reporting purposes. It is worth remembering that in this respect the ESRS introduce the principle of double materiality. While working on the standard its authors opted out of the so-called rebuttable presumption element, i.e. the need to explain omitting certain information. The other standards require the following number of disclosures: environmental standards - 32 disclosures in total, social standards - 32 disclosures, corporate governance standards - a total of 6 disclosures.

VI. Firmy będą obejmowane regulacjami nowego raportowania ESG stopniowo

As a reminder, under the CSRD, the requirement to report for 2024 will cover companies with more than 500 employees. Companies with more than 250 employees will have to report for 2025 (aside from the criteria relating to employment, the net turnover and total assets will also continue to apply), and for small and medium companies and other listed EU companies with more than 10 employees it will be 2026. The scope of the directive will also cover large groups, credit institutions and insurance companies that are not joint-stock or limited liability companies, or are not considered to have limited liability, including cooperative banks and mutual and cooperative insurance societies, providing that they meet the relevant size criteria.



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